

**UNEMPLOYMENT
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2011 Michigan Tax Credit For Positive Reserve Balance Employers

Positive reserve balance employers can apply to receive a state unemployment tax credit

Section 19(a)(5) of the Michigan Employment Security (MES) Act provides that an employer that has paid Michigan unemployment taxes for five years or more, and that has a positive balance in its unemployment experience account will receive a credit of up to 50% of the extra federal unemployment tax (FUTA) paid on their federal IRS Form 940.

Why is the UIA giving employers a credit for FUTA taxes paid?

The credit is provided under Michigan law to ease the burden on employers who have to pay an additional federal tax (FUTA) because of borrowing from the federal government to pay unemployment benefits. The federal government collects the extra federal unemployment taxes and applies it directly against the outstanding loan balance. **(See Fact Sheet 136, 2011 FUTA Credit Reduction.)**

What is the amount of the Michigan tax credit? Michigan law provides that the credit will be either **(1)** 50% of the additional FUTA tax paid by the employer for the previous year, or **(2)** the employer's taxable wages for previous calendar year multiplied by the Nonchargeable Benefits Component of the employer's unemployment tax rate for that year, whichever is the **lesser** amount.

When will an employer be eligible for the credit?

The extra federal unemployment tax will become due January 31, 2011. Employers were able to apply for the credit beginning in February 2011. Thereafter, the credit will be available to be applied in the calendar year that follows a year in which a credit reduction was in effect. For example, if a credit reduction is still in effect in 2012, due January 31, 2013, the credit for 2013, when applied for, would be in the 2013 tax year. All positive reserve balance employers must apply each year in which the Michigan Tax Credit is in effect in order to receive the credit.

How to become a positive reserve balance employer

If you are a negative-balance employer (that is, an employer who has paid less in state unemployment taxes than their former workers have received in unemployment benefits), and you wish to achieve a positive balance, you will need to make a voluntary (non-refundable) payment that is greater than the negative reserve balance (Actual Reserve). Such a payment will lower the tax rate and will also make you eligible for the credit. (See the voluntary payment information on the reverse side of your annual Tax Rate Determination for Calendar Year 2011.)

How can you verify that you are a positive reserve balance employer with five or more years paying state unemployment taxes?

To verify that you have paid state unemployment taxes for five years or more, review your annual Tax Rate Determination for Calendar Year 2011. You are a positive balance employer if the "Equals Actual Reserve (as of 06/30/2010)" is a positive number (greater than zero) and your determination has a Nonchargeable Benefits Component (NBC).

fact sheet

To receive the credit, an employer must meet all of the following criteria:

- Has applied for a Michigan tax credit.
- Is contributing.
- Has paid Michigan unemployment taxes for five years or more
- Has a tax rate for the year of the Michigan tax credit.
- Has a positive reserve ending balance in its unemployment experience account as of June 30 of the previous calendar year.
- Has filed all required quarterly tax reports for the year prior to the year of the credit. (i.e., if the Michigan tax credit is for 2011, all required quarters of 2010 must be filed).
- Has paid the additional FUTA taxes on IRS Form 940, for the year prior to the year of the Michigan tax credit. The additional FUTA taxes must have been paid to the IRS by December 31 of the year prior to the year of the credit (i.e., the 2010 FUTA credit reduction is due by January 31, 2011. To qualify for the Michigan tax credit, the additional FUTA taxes had to be paid to the IRS no later than December 31, 2011.)
- Has paid its FUTA taxes prior to submitting the Michigan tax credit application.
- Has certified the amount of additional 2010 FUTA taxes paid when it applies for the credit.

Other Important Considerations

The Michigan tax credit is non-refundable

It is applied as a credit which can be used against future Michigan unemployment tax liability.

The Michigan tax credit is non-transferable

A successor employer who did not have taxable wages of its own in the year prior to the year of the credit, and did not pay the additional FUTA tax, is not eligible. The predecessor may have been eligible, but the credit cannot be transferred to the successor.

How and when can Employers get the Michigan tax credit?

Because the additional federal taxes became due January 31, 2011, the UIA established paper and electronic processes to facilitate the tax credit application process. An application process is necessary because the UIA has no access to the extra federal unemployment taxes (FUTA) paid on an employer's IRS Form 940. As a consequence, the credit will become available for Employers to apply for beginning in February of 2011, to be applied to an employer's unemployment account beginning with quarter ending 03/31/2011.

Employers will be notified via the UIA website and the *Michigan Employer Advisor*

Further information on how, and when, eligible employers can apply for this credit will be posted online and in the *Employer Advisor*, when the information becomes available. Visit the UIA website at www.michigan.gov/uia. For the *Advisor*, go to the UIA website, select **PUBLICATIONS** and click on ***Michigan Employer Advisor***. To subscribe to the *Advisor*, go to the UIA website, select **EMPLOYERS**, and click on **Subscribe to the Michigan Employer Advisor Newsletter**. Also, once available, you will be able to obtain your credit faster by accessing **EWAM (Employer Web Account Manager), On-line Services for Employers** at the same website.

Questions?

For more information about the Michigan tax credit, employers may call the UIA Employer Customer Relations hotline at **1-800-638-3994** or email TaxSupport@michigan.gov